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Global growth likely remained resilient in Q2, although slightly weaker than in Q1 when it was boosted by the front-loading of economic activity ahead of anticipated US tariffs. As the effects of that front-loaded demand fade, and the tariff impact becomes more pronounced, activity should slow in H2. Trade deals, if struck, could improve sentiment. However, risks remain, particularly the potential for renewed trade tensions, ongoing geopolitical uncertainty and fears over the US's budget deficit. To mitigate the drag from higher tariffs, major central banks are expected to cut rates further in the coming months. Given the elevated trade uncertainty, they are likely to adjust their policy cautiously, striving to balance the need for growth support with the goal of maintaining medium-term price stability.

Macro Picture

USA: lacklustre growth likely through year-end; inflation downside surprises unlikely to last

EA: reversal of US front-loaded exports signals Q2 deceleration; disinflation remains on track

China: near-term stabilisation offers a narrow window for reform as structural risks persist

Japan: doubling cost of rice drives inflation and becomes a factor in stalled US trade talks

CESEE: diverging growth paths as Poland outperforms in Q1 amid persistent inflation in the region

Markets

FX: upside risks for EUR/USD and EUR/GBP on strong fundamentals, growing USD vulnerability

Rates: focus shifts to long-end supply related to the German budget, Dutch pension reform

EM: sovereign spreads continued to tighten despite rising geopolitical tensions

Credit: tariff-related news flow will continue to dominate ahead of the July 9 deadline

Policy Outlook

USA: Fed in no rush to cut rates amid uncertainty about tariff effects on inflation and growth

EA: after likely July pause, ECB seems open to some further rate easing if warranted by data

Japan: BoJ policy maker signals hiking cycle to resume after temporary pause

CESEE: central banks pausing or delaying interest rate cuts due to tenacious inflationary pressures

Key Downside Risks

DM & EM: rising protectionism and trade policies, recurring geopolitical tensions, growing fiscal concerns, disorderly tightening of financial conditions, increasing inflation expectations, major CBs keep rates in restrictive territory for longer, constrained fiscal room in already debt-burdened EMs limits their capacity to absorb outer shocks

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July 2025

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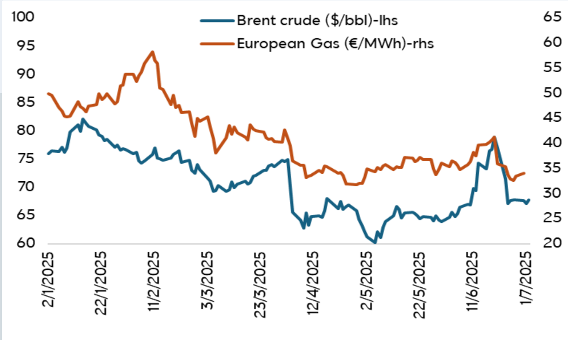
Macro Views

Growth is expected to slow as the tariff effect intensifies; room for further policy easing, though the pace will depend on the challenges faced by each CB

War broke out in the Middle East in June, when Israel launched a series of air strikes targeting Iran's nuclear and military facilities. This aggressive military action marked a significant intensification in the long-standing enmity between the two nations, raising fears over a potential broader regional conflict. In response, Brent crude oil prices surged the most since 2022 on June 13, the day of the strikes, at one point rising as much as 13.2%. The spike reflected concerns over possible disruptions to oil supplies from the region, a critical hub for global energy exports. The Strait of Hormuz, through which 21mn barrels of oil pass daily — approximately 20% of global oil tanker flow — was closely watched, as any disruption or military activity there could severely impact global oil shipments. Thankfully, diplomatic efforts led to a swift ceasefire agreement between Israel and Iran within 12 days of the strikes, helping to ease tensions and stabilise markets. As fears of a prolonged and broader conflict subsided, oil prices fell sharply, with brent crude retracing much of its earlier gains. By late June, prices had dropped below $66.50/bbl, their lowest level since June 10, just before the Israeli strikes against Iran, before rising slightly to levels around $68/bbl in early July, suggesting that investors are pricing in only a moderate risk premium into global oil markets.

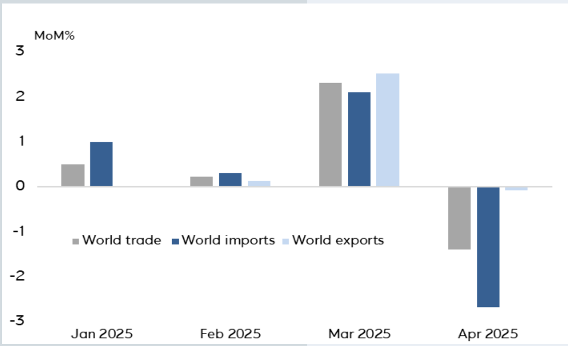
Figure 1: The ceasefire in the Middle East led to a sharp decline in energy prices



Source: Bloomberg, Eurobank Research

Amid easing geopolitical concerns and rapidly diminishing near-term inflation fears which kept the prospect of further rate cuts alive and sparked a significant risk-on rally across various asset classes, trade uncertainty has continued to dominate market sentiment in recent weeks. With only a few days left until the 90-day reciprocal tariff extension expires on July 9, the final tariff levels across countries and sectors remain unclear. The timing and magnitude of their impact, which has yet to be reflected in the hard data, continue to keep markets on edge. Moreover, legal complexities in the US — with the Court of Appeals granting a temporary stay, allowing tariffs to remain in effect pending further review — suggest that it will take some time before there

Figure 2: The impulse to global trade from US frontloading ahead of tariffs is fading



Source: CBP Economic Policy Analysis, Eurobank Research is clarity on the final tariff levels, at both the country and sector levels. On a more positive note, recent developments have been encouraging, supporting the view that the peak of trade tensions may be behind us. US government officials have indicated that deals with key trading partners — potentially including the EU, Mexico and Canada, which account for almost half of US imports — are likely to be announced before July 9, while the deadline for trade talks may be extended to allow for continued negotiations with other partners.

Meanwhile, as the One Big Beautiful Bill Act for the next decade (2025–2034) continues to be debated in Congress, concerns over the future trajectory of US fiscal policy are adding to market uncertainty. The bill, expected to be signed into law by July 4, includes increased government spending and front-loaded tax cuts, with tariff revenue potentially covering much of its cost, assuming it meets projections. This suggests that the budget deficit as a percentage of GDP is likely to be little changed in the near-term. However, there is a risk that tariff revenue may fall short of expectations, as it is contingent on the outcome of trade negotiations, court rulings and future elections. As a result, a flattish deficit-to-GDP ratio in the coming years might be the most optimistic scenario for now.

Despite these challenges, global growth continued to hold up well in Q2, although it was slightly weaker than in Q1, which was boosted by front-loading of activity in anticipation of higher US tariffs. Flash PMIs for June indicated continued expansion in major economies, with the US composite PMI at 52.8 and the respective Euro Area figure at 50.2. While global performance has been solid so far this year, a slowdown in activity is anticipated in the coming months. The effects of US front-loaded demand will fade — though some of this is likely still in the pipeline — and the impact of tariffs will increasingly be felt. Global trade fell 1.4%MoM in April following a Q1 monthly average 1.0%, with US imports down by a pronounced 20%MoM, though they remained above the 2024 average, prior to President Trump's election. The market consensus (as reported by Bloomberg) projects GDP growth to slow from 3.3% in 2024 to a modest 2.7% in 2025 and 2.8% in 2026. However, risks seem skewed to the downside.

Even with trade agreements in place, the US trade weighted effective tariff rate would sit well above its end-2024 level, while extended trade negotiations would keep open the prospect of a potential trade war re-escalation if talks break down. Moreover, concerns about the durability of the Israel-Iran ceasefire persist, with markets keeping a close eye on the situation, as a flare-up in hostilities cannot be ruled out. At the same time, mounting worries over the US fiscal position could potentially trigger a disorderly tightening of global financial conditions, further exacerbating the risks in an already vulnerable global economic environment.

Outside the US, the tariff effect will probably manifest as a negative demand shock (assuming minimal retaliation from major partners), potentially reducing both growth and inflation. In response, major central banks are expected to continue easing monetary policy in the coming months to mitigate the drag from higher tariffs on economic activity. However, due to the high level of economic uncertainty surrounding tariffs — specifically how and when their full effects will materialise — central banks are likely to adjust their policy cautiously, seeking to balance the need for growth support with maintaining medium-term price stability.

The extent of monetary easing will differ across central banks, depending on the specific challenges each faces. This cautious approach has been evident in recent monetary policy decisions, with the ECB signalling a likely pause in July after delivering the eighth consecutive 25bps rate cut in June. However, for the US the impact is likely to be stagflationary. This scenario would involve slower economic growth as higher tariffs erode household real income and spending, while also dampening business investment. At the same time, inflation is expected to rise as the added cost of tariffs feeds into consumer prices. US consumer spending has already slowed, but pre-emptive rate cuts by the Fed seem unlikely, as the full impact of tariffs on US prices has yet to fully materialize. In fact, US inflation data has surprised on the downside for the past two months, suggesting that the pass-through effect of tariffs on prices is happening more slowly than expected. However, this trend is anticipated to reverse. The Fed chairman has indicated that tariff-induced price hikes are likely to build over the summer, expressing concerns that inflationary pressures my persist longer than initially expected. That said, the lower-than-expected inflation reading in recent months may merely represent a delayed process of tariffs passing through into prices rather than an indication that the anticipated prices hikes will not ultimately materialise. Markets are currently pricing in around 70bps of cumulative rate easing for the remainder of 2025 with the first 25bps rate cut fully priced no earlier than September.

Developed Economies

US: Slowing momentum in personal consumption driven by ongoing concerns about the labour market outlook and the likely erosion of spending power due to tariff-related price pressures, points to lacklustre economic output in the coming quarters. However, the risks of a pronounced downturn appear limited so far. Personal income remains supported, while the fiscal stimulus from the "One Big Beautiful Bill" is anticipated to offset tariff headwinds later this year. Nonetheless, growth risks are skewed to the downside as the impact of Trump's policy changes remain uncertain. Meanwhile, inflation came in weaker than expected in May, but downside inflation surprises are unlikely to last, as tariff effects are expected to start passing through to prices in the coming months.

Euro area: Q1 GDP growth was revised up to 0.6%QoQ, but underlying growth remained weak, with private consumption rising by just 0.1%QoQ. However, amid persistent trade uncertainty and the reversal of the effects of front-loaded exports to the US in Q1, the economy appears unlikely to maintain this strong momentum. GDP growth is expected to slow in Q2, but remain marginally positive, at around 0-0.1%QoQ, while higher tariffs and elevated uncertainty are expected to keep growth at similar levels over the coming quarters. Meanwhile, the ECB needs some time to assess whether disinflationary trends are temporary or mark the start of a more sustained decline. In addition, the unresolved outcome of the EU/US trade talks continues to add to policy uncertainty. Against this background, the ECB appeared well positioned at its 5 June meeting to pause at the July meeting.

Emerging Economies

EM: the global macroeconomic environment remains difficult for EMs, weighed down by a sharp rise in trade barriers and elevated policy uncertainty. These headwinds have contributed to a broad deterioration in economic prospects across the EM complex, as highlighted in recent June forecasts by institutions such as the World Bank and the OECD. Growth in EMs is now projected to slow to around 4% in 2025, a notable downgrade from earlier expectations. The deceleration is widespread and reflects weakening external demand from advanced economies, subdued business and consumer confidence and a marked softening in private investment activity. On the geopolitical front, tensions in the Middle East intensified during the month, before giving way to a fragile ceasefire, underlining the persistent geopolitical risks facing EMs. Nonetheless, market performance in June was notably strong. The MSCI Emerging Markets Equity Index rallied by 6.5% over the month, retesting levels last seen at end-2021, while the EM currency index rose by a more modest 1.3%. These gains support PIMCO's recent assessment that EMs may be entering a "Goldilocks" phase, as investors reallocate capital away from US assets amid sustained dollar softness. Despite macro headwinds and global uncertainty, current market sentiment appears cautiously positive.

CESEE: Romania's economic recovery remains fragile following tepid growth of just 0.8% in 2024. Real GDP growth is projected to pick up modestly to 1.5% in 2025. However, Q1 data revealed stagnant quarterly output and a sharp deceleration in annual growth to 0.2%. Inflationary pressures have intensified, with headline CPI rising to 5.5% YoY in May. The National Bank of Romania held its policy rate at 6.50%, citing limited room for near-term easing. Fiscal risks remain pronounced. Despite a consolidation package, the 2025 shortfall in the fiscal deficit is expected at 0.7% of GDP, above the official 7.0% target. Hungary also faces macroeconomic headwinds, with Q1 GDP flat and full-year growth forecast at just 1.0%. Investment weakness and a negative trade balance offset consumption gains. Inflation rose to 4.4% in May and policy rates are likely to remain unchanged. By contrast, Poland leads regional growth. Q1 GDP rose 3.2% YoY, driven by resilient consumption and investment, with full-year growth expected at 3.3%, far outpacing the EU average.

Markets View

Foreign Exchange

EUR/USD: remains supported by longer-term fundamentals, including the euro area's persistent current account surplus, the potential for FX reserve diversification away from the USD and scope for regional fiscal loosening. The broader USD outlook looks increasingly fragile as stagflation and twin deficit risks build. If the Fed stays on hold while trade and fiscal policy uncertainty grows, USD "exceptionalism" is likely to erode further. This leaves EUR/USD biased to grind higher, with a year-end 2025 target near 1.20, close to its long-term fair value estimate, and with risks clearly skewed to the upside.

EUR/GBP: the interplay between a cautious ECB and a still relatively hawkish BoE remains a key anchor for the cross. While the UK's higher rate premium and reserve flows can lend support to sterling, growing concerns over the UK's fragile fiscal outlook and weak growth prospects could limit GBP gains if investor faith in fiscal discipline fades. Concurrently, the euro area's current account surplus and scope for fiscal easing provide a backstop against sustained downside. Together, these factors point to upside risks for EUR/GBP, with any disappointment in UK growth or fiscal credibility likely to push the cross higher over time.

Rates

EU: euro area rates remained broadly stable in June despite early upward pressure driven by geopolitical tensions in the Middle East. The spike in oil prices – triggered by the escalation between Iran, Israel and the US – raised inflation concerns and weighed modestly on growth projections. However, as tensions eased, volatility receded, and markets refocused on domestic drivers. The key theme was Germany's defence-heavy budget, which signalled a big ramp-up in long-term issuance. This catalysed curve steepening, particularly in the 5s30s and 2s30s segments, as markets anticipated heavier supply in the long end. Core inflation forecasts were only marginally revised, despite risks from energy shocks, leaving ECB rate cut expectations largely unchanged – with only one more 25bps cut priced in this year. Rebalancing flows around upcoming Dutch pension fund reforms also triggered further curve steepening. By month-end, the 10yr EUR swap rate settled at 2.61%. The yield curve steepened further, with the 5s30s closing 8bps higher at 0.49%.

US: rates declined modestly over the month as market sentiment shifted toward a more dovish outlook on monetary policy. While the Fed held rates steady, and the 2025 median dot reflected room for cuts, commentary from key Fed officials kept the door open for a potential move as early as July. Inflation data came in weaker than expected and political calls for policy support added to expectations for rate reductions, with markets pricing in nearly three 25bps cuts by year-end. Optimism over trade talks and proposed SLR adjustments supported risk assets. Yield curves steepened slightly as traders positioned for easing, and the US-EU 10yr spread tightened significantly (closed at 1.25%, 27bps tighter MoM), reflecting relatively more aggressive Fed pricing versus the ECB. By month-end, the 10yr SOFR swap rate settled at 3.69%. The yield curve steepened, with the 5s30s closing 3bps higher at 0.47%.

Emerging Markets Sovereign Credit

Emerging market sovereign spreads continued to tighten, showing resilience despite their exposure to US tariffs and ongoing geopolitical tensions. The EMBI Global Index tightened by around 10bps to 294bps, while the CDX EM CDS Index narrowed by 11bps to 161bps. In Central Eastern Europe, 10yr EUR-denominated sovereign spreads for Romania, Hungary and Serbia ended the month over 25bps tighter compared to the end of May. Poland and Bulgaria also tightened, though to a lesser extent. In the Middle East, the recent Israel-Iran conflict drove 5yr Israeli CDS as much as 30bps wider in the middle of the month. However, there was no significant spillover to other regional sovereigns. The widening fully reversed following the ceasefire, with the CDS tightening to 85bps, its lowest level since March. In LATAM, the 10yr Mexican USD sovereign spread tightened by 10bps to 200bps, while the corresponding 10yr Chilean spread also narrowed by 6bps to 142bps. n Asia, 10yr USD-denominated Indonesian sovereign spreads also tightened, albeit more modestly, narrowing by 5bps to close at 162bps. We remain constructive on EM risk during the summer as risks seem to have normalized. Although valuations may suggest that EM credit is starting to look expensive, we see potential for further compression assuming the risk-on supportive global macro environment persists.

Corporate Credit

June started with significant geopolitical escalation, as Israel launched air strikes against Iran's nuclear and military facilities. The move triggered a spike in oil prices, with Brent crude as high as $79/bbl in mid-June, its biggest rally since 2022. Fears escalated about a wider regional conflict and potential US involvement, with the US ultimately launching their own strikes against Iran. The latter responded by launching a strike against a US air base, giving early notice. This was interpreted as avoiding an escalatory strategy and ultimately led to a ceasefire agreement between Israel and Iran, that led to a sharp decline in oil prices (below $64/bbl currently). Throughout the month, markets were supported by fairly resilient data. Against this backdrop, US equities advanced 5% in June, outperforming Europe which registered a 1.3% decline.

Credit markets saw another positive month, with both European and US synthetics ending flattish to slightly tighter. In Europe, Main ended June -3bps remaining flattish on a year-to-date basis. Xover tightened -17bps in June (+30bps ytd). In the US, CDX IG was -5bps while CDX HY tightened -34bps (+1bps and +7bps wider year-to-date). In cash, all European IG sectors ended June tighter (IEAC -8bps) while European HY saw mixed performance, albeit also ending tighter (IHYG -21ps). Sector-wise, Financials and Energy outperformed in the EUR IG space (Snr Fins -13bps, Energy -9bps), while there were no notable underperformers. In High Yield, Telecoms and Energy outperformed (-70-100bps each) while Consumer Staples and Utilities lagged (+7-15bps each). The European primary market remained quite active in June, with almost €200bn of issuance vs. €230bn in May and new supply being well absorbed by the market.

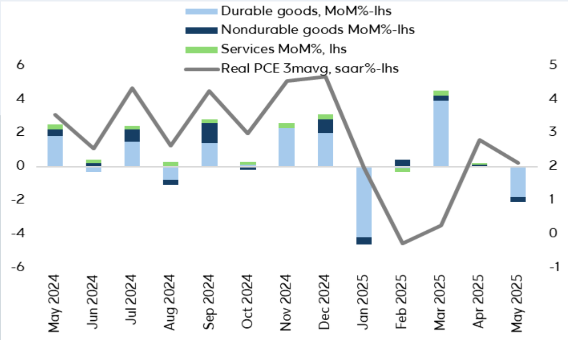
Looking ahead, tariff-related news flow will continue to dominate ahead of the July 9 deadline. On the politics front, eyes are on the US, ahead of the $3.3trn tax and spending bill likely to be voted by July 4.

US

Lacklustre growth likely through year-end; tariff effect on prices still to be seen

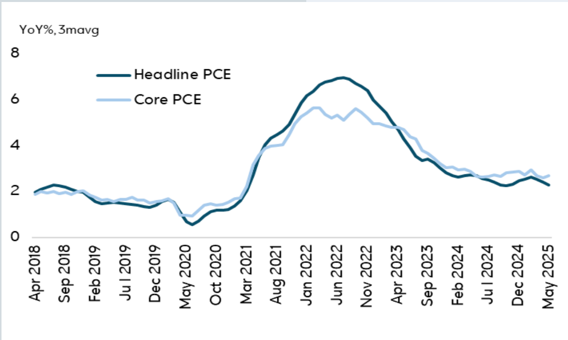
The BEA's final estimate for Q1 GDP revealed a 0.5%QoQ saar contraction, revised 0.3ppts downward from the second estimate, marking the first decline in three years. Household consumption was revised down (-0.7ppts to 0.5%QoQ saar), more than offsetting an upward revision in net exports, which reduced its negative contribution to GDP growth (-4.6ppts compared to -4.9ppts in the prior estimate). As a result, growth in final sales to private domestic final purchasers (PDFP) slowed from 2.5% in the prior estimate to 1.9%QoQ saar. While still relatively strong, the pace of PDFP growth is noticeably slower than 2.9% in the prior quarter and the 3.1% average of the last couple of years. Weakening domestic spending momentum continued into the first two months of Q2. In May, real household spending fell 0.3%MoM after a modest increase of 0.1%MoM in April, consistent with a reversal of Q1 front-loading, when consumers brought forward purchases in anticipation of higher US tariffs. Slowing momentum in personal consumption — the main driver of US growth— driven by ongoing concerns about the labour market outlook and the likely erosion of spending power due to tariff-related price pressures, points to lacklustre economic output in the coming quarters. However, the risks of a pronounced downturn appear limited so far. Personal income remains supported, as the labour market is slowing but at a gradual pace. Personal income fell 0.4%MoM in May, but this was mainly due to the end of temporary benefit payments to social security recipients, while wages and salaries continued to rise solidly (+0.4%MoM). Additionally, fiscal stimulus from the "One Big Beautiful Bill" — which is expected to become law by July 4 — is anticipated to partially offset the drag from tariffs later this year. Nonetheless, growth risks are skewed to the downside as the impact of Trump's policy changes remain uncertain. Meanwhile, inflation came in weaker than expected in May (headline and core PCE at 2.3%YoY and 2.7%YoY. respectively) as retailers continued working through their excess stock built up ahead of tariffs. Nevertheless, downside inflation surprises are unlikely to last, as tariff effects are expected to start passing through to prices in the coming months. Waiting for the full tariff effect on prices and activity, the Fed kept rates steady in June, while, Chair Jerome Powell downplayed the updated dots which indicated two rate cuts by year-end.

Figure 3: Household spending has fallen sharply following March's front-running of tariffs



Source: BLS, Eurobank Research

Figure 4: The full effect of tariffs has yet to be reflected in prices



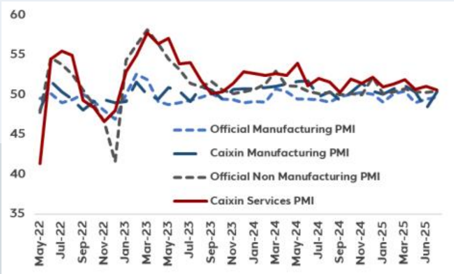
Source: BLS, Eurobank Research

China

Stabilisation offers a window for reform as structural risks persist

The economy has shown tentative signs of near-term stabilisation, offering a narrow, yet important, window for policymakers to confront long-standing structural imbalances. Recent high-frequency indicators for June 2025 suggest modest cyclical momentum. The official manufacturing PMI edged up to 49.7 in June from 49.5 in May, while the non-manufacturing PMI rose to 50.5 from 50.3. This modest uplift appears largely attributable to the temporary US–China tariff truce agreed on 12 May and reaffirmed in early June. The 90-day reprieve has spurred a short-lived rebound in external demand: while new export orders remained in contraction for the 14th consecutive month in June, they rose slightly to 47.7 from 47.5 in May. Container shipments to the US surged by 32% month-on-month in June (based on daily average tonnage, as cited in Bloomberg), likely reflecting front-loading ahead of the truce's 12 August expiration. Domestic demand has also firmed modestly. Retail sales rose 6.4%YoY in May, up from 5.1%YoY in April and exceeding the March–May average of 5.8%, presumably buoyed by targeted consumer subsidies and a pick-up in infrastructure investment. However, beyond headline figures, structural fragilities remain firmly entrenched. Industrial profits contracted -9.1%YoY in May, reversing previous improvements since December 2024 and highlighting ongoing margin compression. Output prices have consistently lagged input costs, a trend in place since September 2022, pointing to continued imbalances between supply and demand. The property sector remains a material drag. New home prices declined by -0.2%MoM in May (vs -0.12%MoM in April), while existing home prices fell by -0.5%MoM (vs -0.41%MoM in April). Property sales also deteriorated, with cumulative January–May volumes falling by -2.8%YoY (vs -1.9%YoY in January–April). These trends continue to undermine the economy's vitality and, by extension, local government revenues, as well as dampening investor sentiment. The expiration of the tariff truce presents further downside risk to the H2 2025 outlook. Policy responses have remained cautious. The People's Bank of China has adopted a more neutral tone in recent communications, signalling limited appetite for aggressive monetary easing. While moderate interest rate or RRR cuts remain possible later in 2025, current policy settings appear insufficient to deliver a meaningful rebalancing. All in all, China's near-term growth profile has stabilised, but remains underpinned by temporary factors. Ab-sent substantive structural reforms, particularly in housing and pricing dynamics, the risk of renewed stagnation under possibly deteriorating external conditions remains pronounced.

Figure 5: High-frequency indicators suggest modest cyclical momentum



Source: Bloomberg, Eurobank Research

Figure 6: ...given the temporary trade truce and a pickup in domestic demand

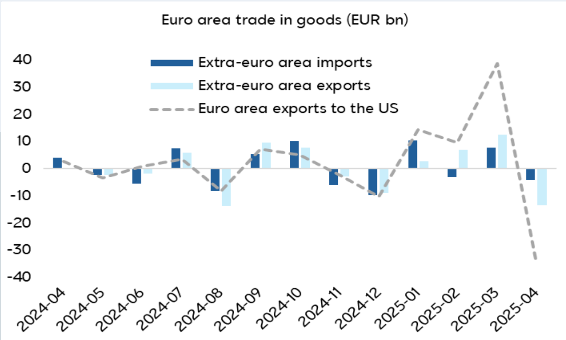
Source: Bloomberg, Eurobank Research

Euro area

Reversal of front-loaded exports flags Q2 deceleration; disinflation on track

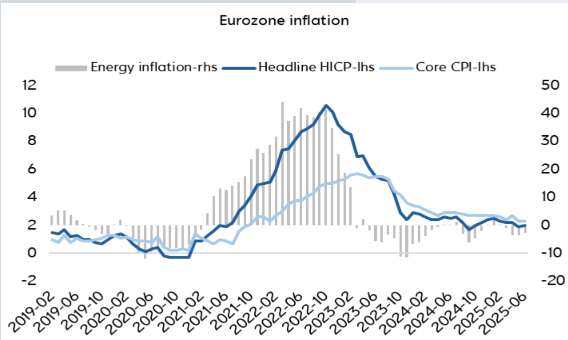
Euro area Q1 GDP growth was revised up by 0.3ppts to 0.6%QoQ following a 0.3%QoQ increase in the previous quarter. The jump was largely driven by front-loaded exports to the US in anticipation of higher tariffs, particularly pharmaceutical shipments from Ireland. However, underlying growth remained weak, with private consumption rising by just 0.1%QoQ, its weakest pace since late 2022, down from 0.4%QoQ in the prior quarter. Persistent trade uncertainty continues to dampen prospects for a meaningful rebound. Combined with the reversal of the effects of front-loaded exports in Q1, as shown by April's weak goods export and manufacturing production data, the economy appears unlikely to maintain this strong momentum. After a 12.6%MoM increase in March that lifted Q1 growth to 4.5%QoQ, extra-euro area exports dropped 13.3%MoM in April — compared to a more modest decline of 4%MoM in imports — with exports to the US plunging by 34.9%MoM. Industrial production, which closely tracks export activity, dropped 2.4%MoM, distorted by a steep 15.2%MoM decline in Irish data, fully reversing March's 2.4%MoM increase that had pushed Q1 output up 1.9%QoQ. GDP growth is expected to slow in Q2, but remain marginally positive, at around 0-0.1%QoQ, while higher tariffs and elevated uncertainty are expected to keep growth at similar levels over the coming quarters. Full-year GDP is projected at 1.0%, roughly in line with 2024, and 1.1% in 2026, partly supported by increased defence and investment spending (the EC estimates a potential GDP lift of around 0.3-0.6% above the baseline by 2028 from a 1.5% GDP increase in defence spending). Meanwhile, disinflation remains on track, with the headline HICP rate rising slightly to 2.0%YoY in June due to higher energy prices, while core inflation stayed stable at 2.3%YoY. The firmer EUR and the recent Middle East de-escalation suggest the potential for further disinflationary pressures. However, the ECB will need some time to assess whether these disinflationary trends are temporary or mark the start of a more sustained decline. In addition, the unresolved outcome of the EU/US trade talks continues to add to policy uncertainty. Against this background, the ECB appeared well positioned at its 5 June meeting to pause in July, leaving the door open to further easing in autumn should downside growth risks materialise.

Figure 7: April's trade date reflects a reversal of the effects of front-loading activity in Q1



Source: Eurostat, Eurobank Research

Figure 8: Disinflationary process still on track



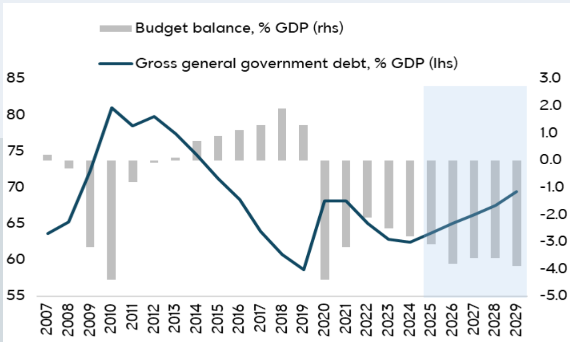
Source: Eurostat, Eurobank Research

Germany

Fiscal stimulus paves the way for a boost in economic activity

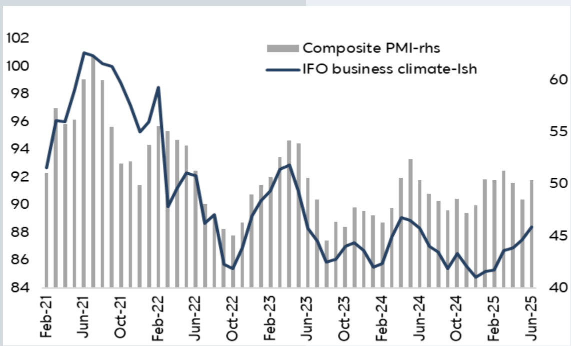
The cabinet has formally approved the draft 2025 budget alongside the medium-term fiscal plan extending through the end of the current legislative period in 2029. Both initiatives represent a significant shift in fiscal policy, aimed at stimulating growth and enhancing investment, with implementation set to begin later this year. Key measures include a budget deficit of €143.1bn in 2025 (equivalent to 3.1% of GDP, up from 2.4% of GDP in 2024). This figure encompasses the core budget deficit as well as deficits from the two off-budget funds dedicated to defence and infrastructure. The budget outlines measures focusing on tax breaks for businesses, including a so-called super 30% depreciation allowance on investments over three years, and energy price support for households and companies, such as a reduction in electricity tax and gas storage levies. The medium-term plan projects a cumulative deficit increase to €846.9bn by 2029. In addition, defence spending is set to rise significantly from 2.1% of GDP in 2024 to 2.4% of GDP in 2025, reaching 3.5% by 2029. This will allow Germany to meet the new NATO target six years ahead of schedule, enabled by additional borrowing capacity granted through the constitutional historic reform of the debt break in March. Moreover, total investment expenditure, including from the two off-budget funds, is set to rise from €115.7bn this year to nearly €120bn annually through 2029. Given the time required for parliamentary approval of the draft 2025 budget and the medium-term fiscal plan — which are expected to be adopted in mid to late September after the summer recess — the full impact of these measures will likely be more evident in 2026 than in 2025. As a result, we have slightly revised upward our 2025 GDP growth estimate, increasing it to 0.2%. Improved growth prospects are expected to become clearer later this year, with some payback likely in Q2 after a strong Q1 performance driven by a front-loaded boost to exports. Reflecting a more positive economic outlook after a prolonged period of stagnation, the composite PMI rose back above the critical level of 50 which separates contraction from expansion (to 50.4 from 48.5), as both manufacturing and services activity improved. Similarly, the Ifo business climate index recorded its sixth consecutive monthly increase (to 88.4 from 87.5) buoyed by forward-looking business expectations.

Figure 9: The deficit trajectory puts Germany at odds with the EU's fiscal rules



Source: German Ministry of Finance, Eurobank Research

Figure 10: Optimism that fiscal stimulus will boost growth



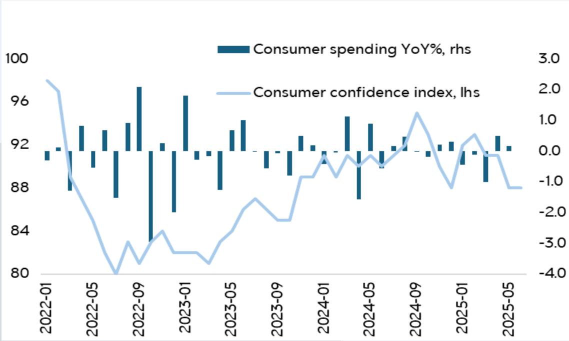
Source: Bloomberg, IFO, Eurobank Research

France

Elevated policy uncertainty at a time the economy struggles with low growth

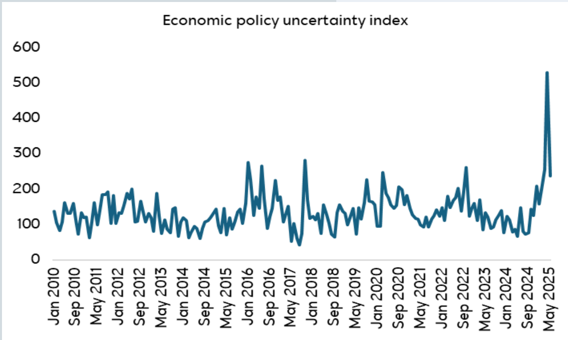
Economic performance in Q1 was disappointing, with GDP growing by just 0.1%QoQ, well below the Eurozone average. The underperformance was mainly the result of a slowdown in consumer spending (-0.2%QoQ from +0.1%QoQ in Q4 2024), despite lower inflation (average HICP at 1.2%YoY in Q1). Consumers' cautiousness was further reflected in the household savings rate which rose from 18.5% to 18.8%, the highest level since 1979 (excluding the Covid-19 period). Other components of domestic demand were also lacklustre, with exports — a major growth driver in recent years — falling 1.8%QoQ, showing no signs of frontloading of exports in anticipation of higher tariffs. High-frequency indicators signal that stagnation will likely continue into Q2, supporting our GDP growth projection of 0.6% for 2025. The composite PMI dropped 0.8pts in June to 48.5, unwinding around half of its May increase (1.5pts). Consumer confidence stood at 88 in June, unchanged from May, which marked the lowest level since October 2023. This figure sits 4pts below the Q1 average and 12pts below the long-term average, offering little hope for a meaningful recovery in consumer spending. Worries over the labour market outlook persist (employment growth down in Q1 for the second quarter in a row, -0.1%QoQ). Tariff uncertainty and concerns about domestic fiscal consolidation efforts may also be contributing to consumers' cautiousness. The government aims to reduce the public deficit to 4.6% of GDP in 2026, relying on €40bn in fiscal consolidation measures. This would follow a projected deficit of 5.4% in 2025 and a realized one of 5.8% in 2024, which was smaller than expected. Meanwhile, domestic political jitters came to the fore after the Socialist Party tabled a motion of no confidence against the Bayrou minority government. This move followed a breakdown in negotiations between employers' and employees' unions over pension reform. However, the motion fell short of the 289-seat majority required to pass. A total of 189 MPs from the opposition voted in favor, including members from left and centre-left parties, but, as expected, deputies from Le Pen's Rassemblement National (RN) party did not support it. RN President Bardella had previously stated that his party would withhold support, likely to preserve strategic flexibility for the upcoming 2026 budget discussion starting in October.

Figure 11: Weak consumer confidence offers little hope for a sustained recovery in consumer spending



Source: INSEE, Eurobank Research

Figure 12: Elevated policy uncertainty at a time the economy is struggling with low growth

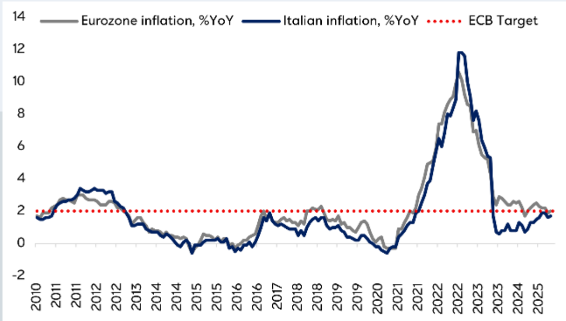


Source: Baker, Bloom and Davis (2016), Eurobank Research

Italy

Inflation looks well conquered, but May jump in unemployment rate is a concern

Figure 13: Italian inflation is reconverging with the eurozone average near the 2% target



Source: Bloomberg, Eurobank Research

Inflation is now clearly under control in Italy after briefly getting above the ECB's medium-term 2% target earlier this year due to an increase in administered electricity prices. Headline HICP growth stayed unchanged at 1.7%YoY in June, contrary to the consensus forecast for an increase to 1.8%YoY. The core inflation rate was 1.9%YoY, also unchanged from May. Price growth in Italy, the eurozone's third-largest economy, remained well below the currency bloc's average throughout 2024, acting as a disinflationary force allowing the European Central Bank to ease monetary policy restrictiveness. While inflation rates have largely converged this year, June's unchanged headline inflation rate does contrast with a slight uptick for the eurozone average, which increased to 2.0%YoY from 1.9%YoY. However, the flip side of Italy's successful disinflation is that the country's economic growth looks like remaining sluggish, with a solid Q1 owing much to the one-off factor of businesses front-loading activity before the imposition of US tariffs. GDP growth is projected to slow to 0.1%QoQ in both Q2 and Q3 following the 0.3%QoQ increase in Q1. The loss of momentum is reflected in the business survey data, with the manufacturing PMI unexpectedly dropping to 48.4 in June from 49.2 the month before – falling deeper below the 50 level that separates expansion from contraction. Although both the services and composite PMIs stayed above 50, they also dropped more than anticipated, by 1.1pts and 1.4pts respectively to 52.1 and 51.1. Consumer confidence also unexpectedly declined in June, to 96.1 from 96.5 in May, though overall economic sentiment picked up 0.8pts to 93.9. In contrast to the softer survey data, available hard data does show some underlying resilience in Q2. Retail sales increased 0.7%MoM in April, 0.3ppts more than the consensus forecast, after contracting 0.5%MoM the month before, while industrial production unexpectedly expanded 1.0%MoM, up from 0.1%MoM in March. One potential concern for policy makers is a jump in the unemployment rate in May to 6.5% from a reading of 6.1% in April, which was upwardly revised from 5.9%. The consensus estimate was that the rate in May would be 6.0%. The Italian labour market in the past year has looked extremely tight by the standards of the country's recent history, which combined with subdued inflation was expected to be the main growth driver this year through rising household consumption.

Figure 14: The jobs market is tight, but unemployment jumped in May

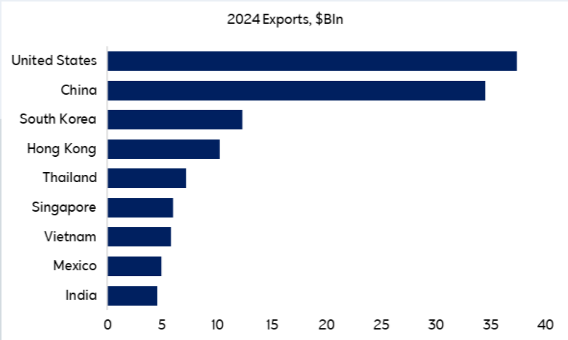
Source: Bloomberg, Eurobank Research

Japan

Trade talks deadline looms with no signs that a deal is imminent

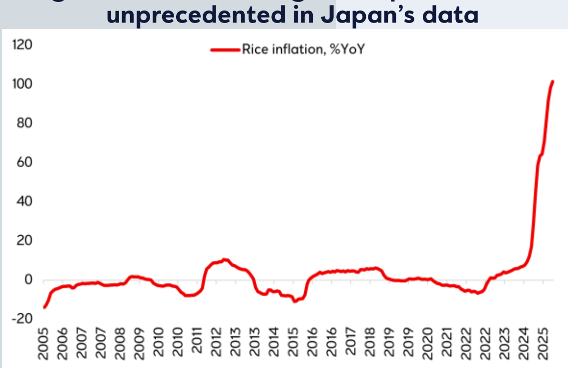
Two major issues in Japanese politics and economics in recent months – tariffs and a domestic rice shortage – were joined together in a social media post by US President Donald Trump at the start of July, where he implied that Japan's refusal to accept US imports of the grain was impeding a trade deal. Talks do not appear to be going well as the July 8 tariff deadline looms, despite Japan's lead negotiator, Ryosei Akazawa, making numerous trips to Washington DC in recent months. Furthermore, the nature of those meetings indicates that the island nation is slipping down in the list of US priorities for a deal. While US Treasury Secretary Scott Bessent said that Japan was at the front of the queue in the immediate aftermath of the April 2 "Liberation Day" tariff announcements, he has not been present at recent meetings, with Akazawa noting after his latest trip that he is often heading to the US without a confirmed schedule of meetings. Japan holds elections for the upper house of its legislature on July 20, making domestic politics a major constraint on negotiators reaching a deal, since Prime Minister Shigeru Ishiba can ill afford to make concessions that would alienate two key constituencies: the automotive industry, which employs about 8% of the country's workforce, and small farmers. Rural voters are a mainstay of the ruling LDP's electoral support. Given the importance of rice in the Japanese diet, the government has been involved in the heavily protected market for the crop since the 1970s, when a chronic oversupply led it to buy up much of the excess stocks. In response to the recent crisis – which has its roots in a hot summer in 2023 resulting in a low yield and has led to the price of rice more than doubling in the past year – the government has been selling some of its reserve stocks to retailers at a discount. Together with some other measures, this has led to some improvements in Ishiba's poll ratings. Polls also show that Japanese voters don't want the government to roll over in its trade negotiations with the US. A particular Japanese sticking point in talks is the imposition of a 25% tariff on auto imports into the US, on top of the across-the-board "reciprocal" tariffs. The Japanese side's emphasis on its role as the biggest global investor into the US appears to have made little headway. While Trump may just extend the deadline if no deal is reached, his recent comments suggest he may impose a tariff as high as 35%, which would be higher than the 24% announced on April 2.

Figure 15: The US remained Japan's biggest export market last year, ahead of China



Source: Bloomberg, Eurobank Research

Figure 16: The doubling of the price of rice is unprecedented in Japan's data



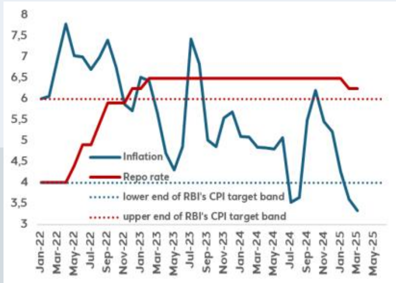
Source: Bloomberg, Eurobank Research

India

Growth momentum strengthens, trade deal with the US in focus

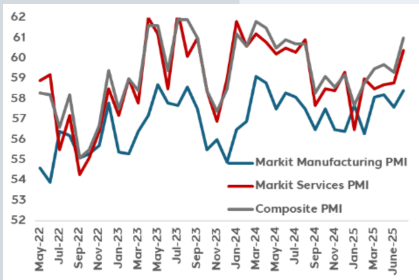
The economy continues to outperform expectations, driven by broad-based sectoral resilience and a supportive disinflationary backdrop. Real GDP expanded by 7.4%YoY in Q4 FY2024–25 (January–March 2025), accelerating from 6.4% in the previous quarter. Real Gross Value Added rose by 6.8% YoY, underpinned by robust growth in construction (10.8% YoY) amid public infrastructure investment, along with improving momentum in manufacturing. Agriculture also remained resilient, recording 5.4% YoY growth. Disinflationary trends have strengthened, creating space for further monetary easing. Headline CPI inflation fell to 2.8% YoY in May—its lowest reading in nearly six years—down from 3.2% in April and averaging 3.4% over January–May. Reflecting this shift, the Reserve Bank of India revised its inflation forecast for FY2025–26 to 3.7% (from 4.0%) and, in a surprise policy move on 6 June, cut its repo rate by 50bps to 5.5%, citing subdued inflation and continued easing pressures. India is expected to maintain above-trend growth of around 6.5% in FY2025–26. The outlook is supported by strengthening private consumption, underpinned by tax relief measures and a tightening labour market, and sustained investment momentum amid benign financing conditions and strong public capital expenditure. However, external headwinds may weigh on export growth, with softer global demand, elevated US tariffs and in-creased trade policy uncertainty clouding the outlook. In this context, India is negotiating a limited trade agreement with the United States ahead of a 9 July deadline, aimed at averting the implementation of punitive “liberation day” tariffs, announced by US President Donald Trump in April. The US could impose duties of up to 26% on Indian exports, which is considerably higher than the most-favoured-nation rates India faced from the US before “liberation day”. A key feature of the expected agreement is the exclusion of politically sensitive (for India) sectors such as dairy and wheat from additional tariffs. India has also committed to increasing LNG imports from the US and agreed to reciprocal tariff reductions on a wide range of goods. The US remains India’s largest trading partner with bilateral trade in goods and ser-vices surpassing USD 190 billion in 2023, a targeted–by both India and the US–volume of USD 500 billion endeavoured up to 2030 and with India posting a trade surplus of approximately USD 41 billion in FY2024–25. While exports constitute a modest share of GDP, India’s significant merchandise exposure to the US amplifies the importance of a favourable agreement for private sector investment sentiment.

Figure 17: Inflation wanes quickly in 2025 so far, allowing for monetary easing....



Source: NSO, RBI, Eurobank Research

Figure 18: ...soft data is on the up, implying a vivid momentum, despite global uncertainty



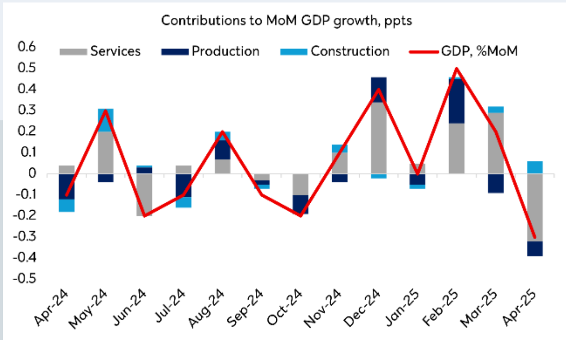
Source: S&P Global, Bloomberg, Eurobank Research

UK

Government welfare cuts setback means fiscal plans will stay in focus

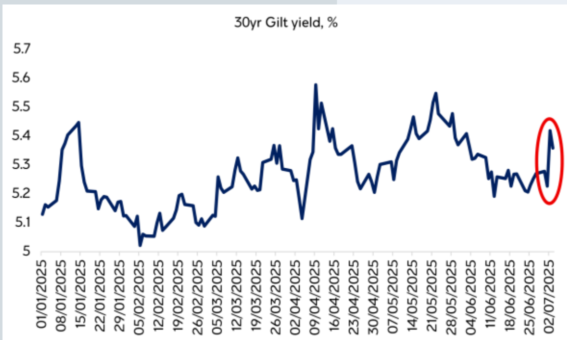
While the Office for National Statistics's second GDP estimate for Q1 2025 confirmed that economic output expanded by 0.7%QoQ, the highest rate in the G7, clouds are once more gathering over the country's growth outlook going forward. Monthly GDP data showed that output contracted 0.3%MoM in April, 0.2ppts more than the consensus estimate, following a 0.2%MoM increase in March. The drop reflected the fading of one-off factors that drove the outsize GDP increase in Q1 – US tariffs and tax increases. In the case of tariffs, it has been observed for some months now that the rush of businesses to get ahead of their anticipated increase in April has distorted the Q1 GDP numbers for many different countries. But for the UK, April's tax increases also led to frontloading of purchases by households. Private consumption increased 0.4%QoQ in Q1, twice as much as in the preliminary estimate, and the savings ratio declined 1.1ppts to 10.9%. Those tax increases were announced by the government on October to meet its fiscal rules that public sector liabilities need to be falling as a proportion of GDP by 2029-30. The government's budget plan left it only £9bn of headroom against that goal. When the Office of Budget Responsibility revised its growth forecasts in March, the government announced additional welfare spending cuts to stay within its target. However, these plans were blown apart on July 1 when a massive rebellion of MPs from the ruling Labour party forced the government to withdraw most of these measures – a hugely damaging political defeat for Prime Minister Keir Starmer. That means that more tax increases look likely to be announced in the autumn. This fiscal backdrop – not to mention the ever-present trade uncertainty – creates a complex environment for the Bank of England, which left its policy interest rate unchanged at 4.25% at its June monetary policy committee meeting, keeping to a quarterly pace of cuts. A slower pace of monetary easing in the UK relative to the euro area means that markets still anticipate more cuts to come; futures markets are pricing in a further 83bps of cumulative easing from the BoE over the next year, compared with just 28bps from the ECB. The slower easing pace is largely the result of stickier inflation in the UK. Headline CPI growth in May was unchanged at 3.4%YoY, driven by rising food prices which increased the most since early 2024. The core inflation rate slowed 0.3ppts to 3.5%YoY.

Figure 19: Both production and services contributed to April's monthly GDP contraction



Source: ONS, Eurobank Research

Figure 20: Gilt yields spiked in the fallout after the government's reversal on welfare cuts



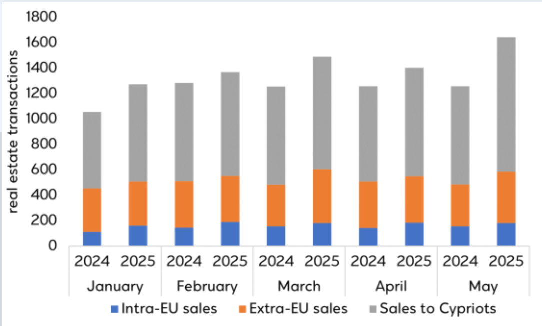
Source: Bloomberg, Eurobank Research

Cyprus

Resurging regional tensions cloud near-term outlook; disinflation to fuel demand

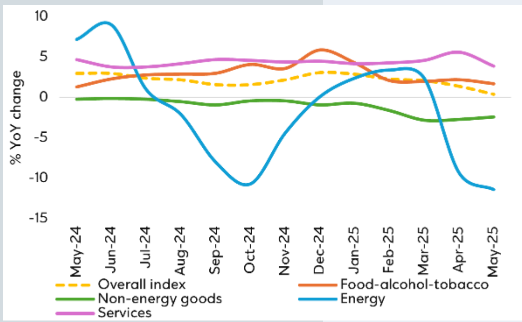
The recent re-escalation of geopolitical tensions in the Middle East, due to the Israel-Iran war, has underscored the significant risks facing Cyprus's near-term economic outlook. Should a ceasefire fail to hold, or military hostilities resume in the region (e.g., between Israel-Iran or in the Red Sea), Cyprus is likely to experience adverse impacts, particularly in its maritime, tourism and retail sectors. However, there are signs that during the regional tensions in recent years, Cyprus emerged as a "safe haven" for investors from neighbouring countries. This is reflected in the relatively modest 12.5% decline in extra-EU real estate sales in 2024 compared to a record high in 2023, with sales still 46% above 2022 levels. Furthermore, the 10.1%YoY increase in January-May this year nearly offsets last year's dip. It also contributed to the 15.3%YoY rise in overall real estate sales, mainly driven by robust domestic demand, and is expected to sustain momentum in the construction sector. Regarding recent trends in other short-term indicators, Cyprus experienced a marked deceleration in headline inflation to 0.4%YoY in May, a four-year low, down from 1.4% in April. This slowdown primarily reflects a base effect in transportation fuel prices rather than deflationary pressures in housing-electricity costs, after the VAT cut on electricity came into effect in April. This base effect is expected to continue up to August. On the other hand, the introduction of a green tax on fuels is likely to trigger a rebound in transportation inflation in Q4 2025. Overall, this disinflationary trend should help support real household incomes throughout the remainder of the year. Household demand is anticipated to benefit not only from easing inflation but also from continued employment gains and a sustained acceleration in consumer credit growth, reaching 10.2%YoY in April (a 16.5-year high pace) and on average 7.2%YoY in the last 12 months. On the external front, preliminary merchandise trade data for April showed that the widening of Cyprus's nominal trade deficit observed in Q1 2025 (+12.3%YoY), continued in April, but at a more moderate pace (+1.5%YoY). In tourism, the robust growth in travellers continued unabated in May (+13.7%YoY). A contributor to this increase must have been the higher number of cruise ship visits to the port of Limassol. The Israel-Iran war led to even more travellers from Israel in June, which already accounted for 21% of the 14.9%YoY rise in January-May. However, this spike is likely to moderate in the next months, balancing out the extraordinary influx in June.

Figure 21: Higher real estate sales in 2025, mainly due to stronger domestic demand



Source: Ministry of Interior, Eurobank Research

Figure 22: Disinflation accelerated in April-May, supported mainly by electricity and fuel prices



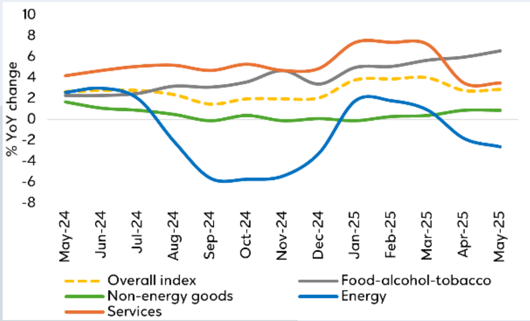
Source: CYSTAT, Eurobank Research

Bulgaria

Eurozone entry process near completion; net exports remain a drag to growth

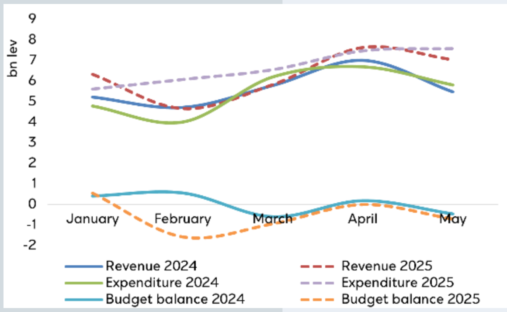
The positive evaluations by EU institutions (Eurogroup, ECOFIN, EU Council) during June of Bulgaria's readiness to enter the Eurozone have paved the way for the last step of the institutional process for joining the euro, a second and typical ECOFIN approval on July 8. The focus in the coming period is expected to shift toward operational readiness for the currency switch. Legislative groundwork has already been laid, with the Bulgarian Parliament passing the euro adoption law in August 2024, addressing necessary legal and technical provisions. Nonetheless, early market reactions suggest the transition may carry inflationary consequences. Data from the National Revenue Agency indicates broad-based price increases of 5-40% across 14 food categories in the two weeks following the release of the EC and ECB convergence reports on Bulgaria on June 4. The most pronounced price hikes were observed in mineral water, with notable gains also recorded in bread, meat, dairy and eggs. On the other hand, headline inflation almost stagnated a month earlier, rising to 2.9%YoY in May from 2.8%YoY in April, but well below the 3.9%YoY average in Q1 2025. Food inflation remained a significant source of inflationary pressures, as it accelerated further, to 6.6%YoY from 6.0%YoY in April and up sharply from 3.4%YoY in December 2024. This spike in food prices was mainly fuelled by the reintroduction of the standard VAT rate (20%) on flour-based products in January, replacing the previous reduced rate of 9%. These inflationary dynamics were mainly offset by stronger deflation in energy prices. Yet, the sustainability of this trend remains uncertain, given that, since May and excluding the period of the Israel-Iran war, oil futures are trading at five-year lows and natural gas prices are close to the previous year's low levels, implying limited additional deflationary impulse. Furthermore, the national utility regulator approved on July 1 an average 2.6% increase in the electricity price for households. Despite these inflationary headwinds, household demand is expected to remain resilient in the coming quarters, supported by an exceptionally tight labour market, with the unemployment rate remaining below 4.0%, and strong consumer credit growth (+15.1%YoY in January-May). On the flipside, external sector dynamics remain a drag. earlier, largely due to an expanding goods deficit. The goods and services trade balance deteriorated further in April, outpacing the already significant worsening seen in Q1. This deterioration indicates that net exports have likely continued weighing on GDP growth into Q2.

Figure 23: Food inflation stalls disinflation; deflation in energy expected to ease



Source: Eurostat, Eurobank Research

Figure 24: Despite a lower VAT registration base since April, the budget balance remains worse than in 2024



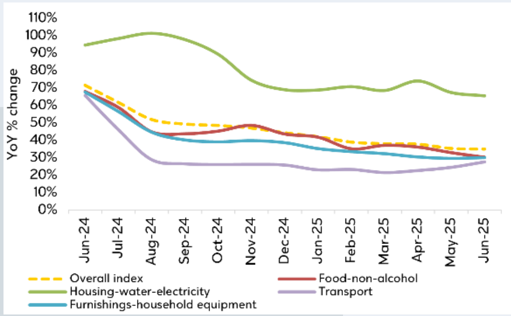
Source: Ministry of Finance, Eurobank Research

Turkey

Possible resurgence of political turmoil; disinflation momentum stalls in June

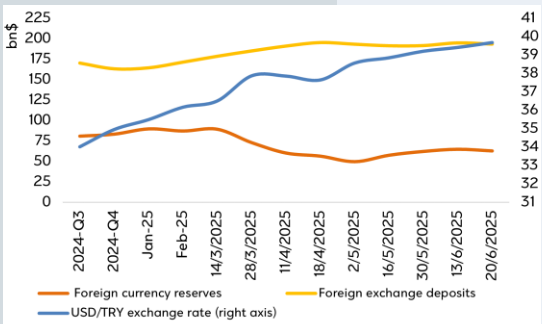
Recent political developments in Turkey have re-fuelled uncertainty. Following the arrest of Istanbul Mayor Ekrem İmamoğlu in mid-March, a large-scale police operation targeting the former city mayor in Izmir and municipal officials around him was launched this week. The crackdown, focused on allegations of bid rigging and fraud, now involves up to 157 individuals — many affiliated with the main opposition party, CHP. Despite CHP's call for mass protests after the first detentions on July 1, the public response has been muted compared to the reaction following İmamoğlu's arrest. As to the economic side-effects of the latter, foreign currency deposits rebounded in June after a $3.0bn decline in May, rising by June 20 to just $1.9bn below their multi-year peak reached in mid-April ($195.6bn). This uptick signals sustained political and economic uncertainty, as well as the EC's economic sentiment index decline by 2.5-3.2 points in April-June from March levels. On the monetary front, the strong recovery in the TCMB's foreign exchange reserves in May (+$11.4bn) stalled in June (+$0.6bn through June 20), leaving reserves substantially below their mid-March peak (-44.3%) and last year's level (-18.6%YoY). It is likely that the central bank has deployed some of its rebounding reserves to halt the lira depreciation, which softened moderately in June compared to May (-17.4%YoY vs. -20.4%YoY against the USD), but remains stronger than in January-April (-14.7%YoY). The persistent lira depreciation has dampened disinflationary progress in Q2, as the headline inflation eased to 35.1%YoY in June, down from 38.1%YoY in March and 44.1%YoY in December 2024. Additional inflationary pressures loom, notably a 24.6% residential gas price hike effective July, along-side a smaller 7.9% increase for industrial consumers, which will feed into higher production costs. Real household incomes will receive a temporary boost from mid-year statutory salary and pension adjustments. However, these increases risk fuelling a wage-price spiral, ultimately undermining their real income support. Labour market gains seen in recent years also have stalled, with unemployment steady at last year's levels in Q2. External sector trends are mixed. The merchandise trade deficit widened further in April-May (+14.6%YoY), accelerating from Q1 (+11.1%YoY). Conversely, tourist arrivals rebounded, shifting from a 5.0%YoY decline in Q1 to a 2.2%YoY increase in April-May.

Figure 25: Transport costs halted disinflation in May-June, reflecting the lira depreciation



Source: Turkstat, Eurobank Research

Figure 26: FX deposits remain at multi-year high, lira depreciation continues



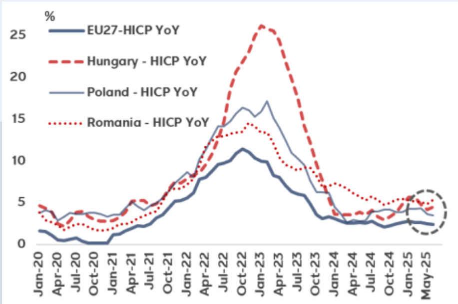
Source: Central Bank of Turkey, Eurobank Research

CESEE

Diverging growth paths as Poland outperforms and Romania and Hungary lag

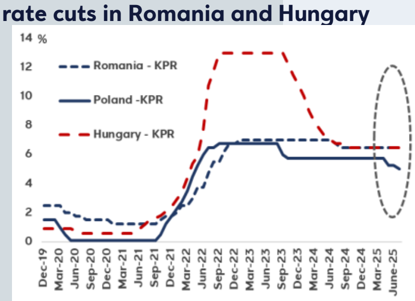
Romania's economy remains weighed down by subdued momentum, following lacklustre real GDP growth of just 0.8% in 2024. A modest rebound is forecast for 2025, with annual growth expected to reach approximately 1.5%. However, Q1 data highlight the fragility of this recovery as output was flat on a quarterly basis, while annual growth decelerated sharply to just 0.2%. This aligns with the recent weakness in business confidence, with the European Commission's Economic Sentiment Index (ESI) declining to 97.0 in June, its lowest level in over two years, signalling deepening concerns over the short-term outlook. While the services sector displayed some resilience, broad-based declines were observed across industry, construction, and retail trade. Inflationary pressures have re-emerged. Headline CPI accelerated to 5.5%YoY in May, up from 4.9%YoY in April and above the January–May average of 5.0%. Reflecting these renewed price pressures, the central bank of Romania (NBR) opted to keep the policy rate unchanged at 6.50% for a sixth consecutive meeting, citing ongoing upside risks to inflation and limited scope for monetary easing in the near term. On the fiscal front, Romania remains vulnerable. The country recorded the EU's highest budget deficit in 2024, at 9.3% of GDP. Although a fiscal consolidation package was adopted at the end of 2024, encompassing a nominal freeze on public sector wages and pensions, alongside revenue-raising measures, the 2025 deficit is now projected at 7.7%, exceeding the government's 7.0% target. Nonetheless, recent signs of an emerging cross-party consensus on the need for fiscal discipline are encouraging. Hungary is in a similarly weak macroeconomic position. The economy stagnated in Q1 2025, with GDP flat year-on-year. A deeper-than-expected contraction in investment and a negative contribution from net trade offset a modest recovery in household and public spending. Full-year growth is projected at around 1.0% which is among the weakest in the CEE region. Private consumption may offer limited support thanks to real wage growth and labour market resilience, but tight financial conditions and elevated inflation will continue to weigh on demand. Headline inflation accelerated to 4.4%YoY in May, up from 4.2%YoY in April, with the annual average expected to hover near 4.5%. The MNB kept its base rate at 6.50% in June and is likely to remain on hold through year-end, constrained by fiscal fragilities. In contrast, Poland remains the outperformer in the region. Real GDP expanded by 3.2%YoY in Q1 2025, driven by resilient household spending and recovering investment. The economy is on track to grow 3.3% in 2025, well above the EU-27 average of 0.9%, positioning Poland as the front-runner in the growth dynamics in the region.

Figure 27: Tenacious price pressures and lacklustre growth in Q1..



Source: Eurostat, Eurobank Research

Figure 28: ..tap the brake on interest rate cuts in Romania and Hungary



Source: Bloomberg, Eurobank Research

Eurobank Macro Forecasts

	Real GDP (YoY%)			CPI YoY%, avg)			Unemployment rate (% of total labor force)			Current Account (% of GDP)			General Budget Balance (% of GDP)		
	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f	2024	2025f	2026f
World	3.3	2.6	2.8	5.7	3.8	3.5									
Advanced Economies															
USA	2.8	1.5	1.6	3.0	2.9	2.8	4.0	4.3	4.4	-4.1	-4.1	-3.6	-6.4	-6.5	-6.6
Eurozone	0.9	1.0	1.1	2.4	2.0	1.8	6.4	6.3	6.3	2.8	2.4	2.2	-3.1	-3.3	-3.4
Germany	-0.2	0.2	1.6	2.5	2.2	2.0	6.0	6.4	6.3	5.6	5.2	5.0	-2.8	-3.0	-3.5
France	1.2	0.6	0.8	2.3	1.0	1.6	7.4	7.5	7.7	-0.2	0.1	-0.2	-5.8	-5.6	-5.3
Periphery															
Cyprus	3.4	3.1	3.2	2.3	1.4	1.9	4.9	4.5	4.2	-8.3	-9.0	-7.8	4.3	4.1	3.8
Italy	0.7	0.5	0.8	1.1	1.8	1.7	6.6	6.3	6.3	1.1	1.3	1.8	-3.4	-3.3	-3.1
Portugal	1.9	2.2	2.0	2.7	2.2	1.9	6.4	6.3	6.3	2.2	1.7	1.6	0.7	0.3	0.1
Spain	3.2	2.4	1.8	2.9	2.3	1.9	11.4	10.7	10.4	3.0	2.6	2.5	-3.2	-2.9	-2.8
UK	1.1	1.0	1.1	2.5	3.1	2.3	4.3	4.6	4.6	-2.7	-2.5	-2.5	-5.1	-4.1	-3.6
Japan	0.2	0.8	0.8	2.7	2.8	1.8	2.5	2.5	2.3	4.8	4.6	4.3	-2.2	-3.5	-3.3
Emerging Economies															
BRIC															
Brazil	3.4	2.3	1.6	4.4	5.2	4.4	6.8	6.8	7.2	-2.8	-2.6	-2.5	-8.5	-8.4	-8.0
China	5.0	4.5	4.2	0.2	0.2	1.0	5.1	5.1	5.1	1.4	1.9	1.5	-4.8	-5.6	-5.7
India	6.3	6.3	6.5	4.6	3.8	4.2		N/A		-0.8	-1.0	-1.0	-4.8	-4.4	-4.4
Russia	4.3	1.4	1.2	8.4	9.2	5.5	2.5	2.5	2.8	2.9	2.2	2.1	-1.7	-1.7	-1.4
CESEE															
Bulgaria	2.8	3.2	3.4	2.4	3.5	2.7	4.2	3.6	3.3	-1.8	-2.4	-1.5	-3.0	-4.0	-2.6
Turkey	3.2	2.5	3.1	58.5	34.2	24.7	8.7	8.3	7.8	-0.8	-1.4	-1.1	-4.9	-5.4	-4.5

Sources: European Commission, World Bank, IMF, OECD, Bureaus of National Statistics, Bloomberg, Eurobank Research

Eurobank Fixed Income Forecasts

	Current	September 2025	December 2025	March 2026	June 2026
USA					
Fed Funds Rate	4.25-4.5%	4.09-4.35%	3.8-4.05%	3.6-3.85%	3.41-3.65%
3m SOFR	4.3%	4.14%	3.92%	3.69%	3.5%
2yr Notes	3.79%	3.83%	3.7%	3.59%	3.56%
10yr Bonds	4.27%	4.36%	4.29%	4.22%	4.2%
Eurozone					
Refi Rate	2.15%	1.95%	1.9%	1.9%	1.9%
3m Euribor	1.96%	1.82%	1.83%	1.84%	1.86%
2yr Bunds	1.86%	1.82%	1.83%	1.89%	1.93%
10yr Bunds	2.63%	2.57%	2.64%	2.7%	2.76%
UK					
Repo Rate	4.25%	4%	3.75%	3.55%	3.45%
3m Sonia	4.09%	3.95%	3.78%	3.63%	3.56%
10-yr Gilt	4.48%	4.5%	4.38%	4.31%	4.25%
Switzerland					
3m Saron	-0.07%	-0.15%	-0.14%	-0.14%	-0.14%
10-yr Bond	0.40%	0.35%	0.38%	0.43%	0.46%

Source: Bloomberg (market implied forecasts)

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